

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7230

BILL NUMBER: SB 385

DATE PREPARED: Jan 19, 1999

BILL AMENDED:

SUBJECT: Income tax deduction for child care expenses.

FISCAL ANALYST: Diane Powers

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FUNDS AFFECTED: X

**GENERAL
DEDICATED
FEDERAL**

IMPACT: State & Local

STATE IMPACT	FY 1999	FY 2000	FY 2001
State Revenues			(8,000,000)
State Expenditures			
Net Increase (Decrease)			(8,000,000)

Summary of Legislation: This bill provides an income tax deduction for employment related child care expenses. The deduction is equal to the lesser of \$4,000 per child or the taxpayer's adjusted gross income.

Effective Date: January 1, 2000.

Explanation of State Expenditures: The Department of Revenue will have some additional administrative expenses to accommodate this new deduction in order to change tax forms, instructions, computer programs. These expenses would come from their existing budget.

Explanation of State Revenues: This bill creates a new individual income tax deduction for employment related child care expenses. This deduction is equal to the lesser of the taxpayer's adjusted gross income or \$4,000 of employment related child care expenses. These expenses must be for a qualifying child who is less than 13 years old and a dependent of the taxpayer under the Internal Revenue Code. This deduction is effective for tax years beginning January 1, 2000 and would affect revenue collections beginning in FY 2001.

According to the Internal Revenue Service, there were approximately 118,000 Indiana taxpayers who claimed the federal child care expense credit in 1995. These taxpayers claimed an average federal tax credit of \$400 which would equate to approximately \$2,000 in employment related child care expenses. Assuming that a similar number of taxpayers would be eligible for this new Indiana income tax deduction, there would be a revenue loss of approximately \$8 M annually.

Individual income tax revenue is deposited in the General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Counties who have adopted a local option income tax will lose an indeterminable amount of local option income tax revenue.

State Agencies Affected: Department of Revenue.

Local Agencies Affected: Counties with a local option income tax.

Information Sources: Internal Revenue Service, Statistics of Income.